



Energy and Telecommunications Interim Committee
62nd Montana Legislature

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JIM KEANE
CLIFF LARSEN

HOUSE MEMBERS

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Senate Energy & Telecomm. Comm.

Exhibit No. 3

Date 1/17/13

Bill No. SR 2

COMMITTEE STAFF

SONJA NOWAKOWSKI, Lead Staff
TODD EVERTS, Staff Attorney
DAWN FIELD, Secretary

September 7, 2012

The Honorable Steven Chu
Secretary
Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Dear Secretary Chu,

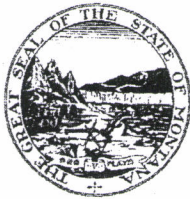
The Energy and Telecommunications Interim Committee of the Montana Legislature (ETIC) is writing to express its concerns with the new direction and the initiatives contemplated for the Power Marketing Administrations (PMAs) in your memo dated March 16, 2012.

PMAs, including Western Area Power Administration (WAPA) and Bonneville Power Administration (BPA) serving Montana, are perhaps of more critical value to electric cooperatives and their communities than to any other sector because they provide low-cost, affordable power that would not otherwise be available in cooperative communities. The plan outlined in the March memo is a "top down" national directive from Washington, D.C., that violates core principles historically vital to the success of PMAs. One of these core principles is regional or local control.

PMAs are administered through local control and operation. As a result, PMAs such as WAPA and BPA have established local offices that have built close relationships with local preference customers, including Montana's electric cooperatives. Local operation is necessary to reflect the difference in state policies, resources, grid connections, and economic arrangements with customers across the PMAs. The regions within the PMAs themselves also reflect the different statutory obligations of different projects and any related obligation to handle costs and budgets differently.

Contrary to the implications in the directive outlined in the March memo, the PMAs do not face reliability risks. PMAs are addressing transmission upgrades at the same pace, or in advance of, other electric utilities in the U.S.

For WAPA and BPA, reliability data from both these agencies make it clear these systems are operating well above industry standards. For example, according to the most recent data available, WAPA's Upper Great Plains region that serves in Montana experienced 32.76 seconds in outages due to failed equipment per mile of power line compared to 129.24 seconds for the



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North American Reliability Corporation's Upper Midwest Reliability Organization region. Similar high quality of operations is apparent at BPA. BPA's system average interruption frequency and system average interruption index are both at levels that indicate superior performance.

The directive outlined in the March memo demonstrates the Department of Energy's lack of understanding of the extreme rural, "frontier" nature of the areas in the West served by PMAs, including Montana. The only way to fully grasp the challenges faced in serving these rural areas would be for Department of Energy officials to visit a rural state like Montana.

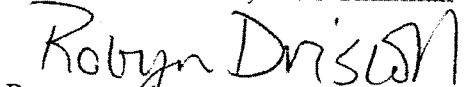
For example, in Montana, many electric cooperatives have less than one customer for every mile of power line. The effect of serving these sparsely populated areas is that costs for power delivery are much higher than in urban areas. This means per-customer impacts caused by costly new federal programs to achieve incremental reliability improvements or to facilitate integration into the transmission system of new energy resources, such as wind power, with variable outputs would be enormous. Paying for integration of these energy resources in these areas with low customer density would otherwise not be cost-effective.

Thank you for accepting our comments on these matters. We look forward to your response.

Sincerely,



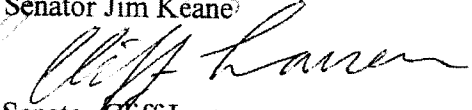
Senator Alan Olson, ETIC Chairman



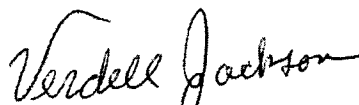
Representative Robyn Driscoll



Senator Jim Keane



Senator Cliff Larsen



Senator Verdell Jackson



Representative Harry Klock

cc:

Governor Brian Schweitzer

Senator Max Baucus

Senator Jon Tester

Representative Dennis Rehberg



Department of Energy

Washington, DC 20585

January 10, 2013

The Honorable Alan Olson
Montana State Senator
EITC Chairman
PO Box 201706
Helena, Montana 59620-1708

Dear Senator Olson:

Thank you for your letter of September 7, 2012, to Secretary Chu regarding his March 16, 2012 memorandum (Memo) setting forth "foundational goals" for the Department of Energy's (DOE) Power Marketing Administrations (PMAs). Your letter raises many important issues. The Secretary has asked me to respond on his behalf.

As highlighted in testimony DOE submitted on April 26 to the House Natural Resources Committee, the Memo outlines broad concepts for achieving these foundational goals in a manner that will be customized to reflect the unique attributes of each PMA. The core of this process is a robust collaboration between DOE, each PMA, its customers, its stakeholders, and its Congressional delegations.

As you may know, a Joint Outreach Team (JOT) – comprised of experts from both Western Area Power Administration (WAPA) and DOE – has been convened to lead this process. Over a three-week period in July, 2012, the JOT traveled throughout WAPA's footprint to receive input from WAPA's customers, stakeholders, Tribes, and state agencies. During the days, stakeholders participated in workshops where they identified topics and engaged in small group discussions with each other and representatives from WAPA and DOE. In the evenings, participants provided oral comments at listening sessions open to the public. This input helped the team draft a set of recommendations on how to move forward and tackle some of these issues. If interested parties were not able to attend in person, written comments were accepted on-line at JOT@wapa.gov.

I personally attended and helped to facilitate the July 18, 2012, listening session in Billings, Montana. It was helpful to hear directly from WAPA stakeholders in Montana about the issues of greatest concern to them, including the need to maintain affordable rates; focus on investments that are cost-effective; and ensure that those receiving the benefits from future investments pay for them.

The collaboration with WAPA's customers and stakeholders did not end with these workshops and listening sessions. After the JOT had an opportunity to meet and discuss the information received through the workshops, listening sessions, and by email, a webinar was conducted on September 7, 2012, to publicly review and summarize the feedback. A Tribal Webinar was held separately on October 3, 2012.



Additionally, Senator Baucus and Senator Tester convened a meeting on November 1, 2012, in Great Falls to again hear from Montana stakeholders. I am pleased to know you were able to participate in this meeting, speak directly with representatives from DOE and WAPA, and engage in a very constructive conversation with other WAPA customers and stakeholders in Montana.

Taking into account all of the feedback it has received, the JOT drafted an initial set of recommendations that were published in the *Federal Register* on Tuesday, November 20, 2012, providing a second opportunity for public comment. To make smart, thoughtful, and well-informed decisions about how to address the challenges facing the grid, it is critical that the JOT hear from a variety of stakeholders, customers, and ratepayers. All comments on the draft recommendations published in the *Federal Register* should be received by Western at the address below on or before 4 p.m. MST January 22, 2013.

- Send written comments to the Joint Outreach Team at JOT@wapa.gov.
- Comments may also be delivered by certified mail or commercial mail to:
Anita J. Decker, Acting Administrator, Western Area Power Administration,
P.O. Box 281213, Lakewood, Colorado 80228-8213 or fax to (720) 962-7059.

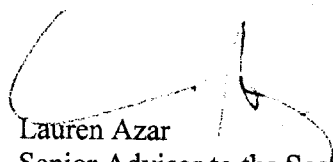
We understand your keen interest in any actions that may affect the Western Area Power Administration (WAPA), Bonneville Power Administration (BPA) and their customers and stakeholders – and, in particular, their requirements to offer cost-based rates. As articulated in the Memo, we will comply with all applicable laws relating to the rates for the sale of electricity to preference customers, which include cost-based rate structures. Indeed, maintaining cost-based rates is consistent with the overall goal of the Memo and of DOE: to minimize electricity bills for consumers while remaining competitive in a global economy.

Among the PMAs' primary obligations are to (1) market electricity to preference customers so as to encourage the most widespread use of Federal power at the lowest possible rates to consumers, consistent with sound business principles; and (2) reliably maintain and operate their portion of the Nation's transmission grid. Within this context, the goals set forth in the Memo relate primarily to the PMAs' transmission infrastructure and not to the marketing of federally generated power to the preference customers. The Memo reinforces – not changes – these primary obligations.

It was very helpful to hear directly from Montana customers and stakeholders about the issues of greatest concern to them. DOE and WAPA recognize the fundamental importance of maintaining affordable electricity for the families and businesses that consume the electricity delivered by WAPA. The best way to resolve these issues is to work together to identify needs, potential solutions, and ways to better collaborate.

If you would like to discuss any of these issues further, please do not hesitate to contact me at (202) 586-3696 or Mr. Brad Crowell, in our office of Congressional and Intergovernmental Affairs, at (202) 586-5450. Thank you for your interest in the Federal Power Marketing Administrations.

Sincerely,



Lauren Azar
Senior Advisor to the Secretary